

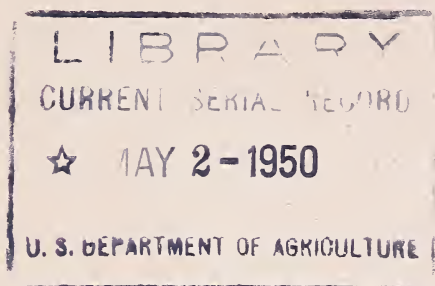
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Insured Farm Mortgages

A Sound
Investment
for Lenders



PA-34

Revised March 1950

U. S. Department of Agriculture
Farmers Home Administration
Washington, D. C.

What Are Insured

Lenders now have open to them a new investment field in cooperation with the Farmers Home Administration of the Department of Agriculture, as a result of recent amendments to the Bankhead-Jones Farm Tenant Act.

Banks and other lending agencies may make farm real estate loans and have their investment insured by the Government. An assured market for the mortgages is available after 7 years. In addition, legislation requires that the borrower refinance the mortgage through regular credit channels as soon as he can qualify for such credit.

Loans up to 90 percent of the earning capacity value of a family-type farm can be made and lenders will receive 3 percent return on their investment. The borrower pays an additional 1 percent annually as insurance charge. All collections and other servicing details are handled by the Farmers Home Administration.

The purpose of this insured-mortgage program is to

Purposes

extend the benefits of farm ownership to as many farm families as possible and to encourage private enterprise to make the loans. The program is based on experience gained since 1937 in making similar-type loans through direct Government lending to approximately 60,000 families, including 8,000 veterans. These loans have enabled farm tenants, sharecroppers, farm laborers, and veterans to buy family-type farms of their own or to improve or enlarge their holdings to efficient family-type units.

Loans are made only to families unable to get the necessary credit through usual credit channels at rates (not to exceed 5 percent) and terms prevailing in their locality. Veterans are given preference on all loans.

Conditions

Farm Mortgages?

Repayment experience with the direct loans indicates that the similar insured mortgage credit will be successful.

Repayment record Allowed 40 years in which to repay, more than 16 percent of the 60,000 farm-ownership borrowers repaid their loans in full from farm income within the first 10 years. Those now on the program have repaid 44 percent more in interest and principal than would be required to keep their payments current on the basis of 40 equal annual installments.

The first insured mortgage loan was closed in October 1947. Since that date 3,000 loans have been made, of which 54 percent were by banks in rural areas that saw in this

first loan program an opportunity to create new customers for the future and to increase the citizenship resources of the community. Thirty-three percent were made by life insurance companies, 13 percent by individuals, State retirement funds, or subsidiaries of farm organizations.

One banker, at the time of closing the first loan in his State, said: "These federally insured mortgages are simple to handle, and we have little or no work in connection

bankers say with them. More important, the program provides a way to develop new business and broaden our services to the community, and it gives us a chance to work with families who cannot qualify for regular credit but who are likely to become good customers in the future." Another banker added, "The loans, being insured by the Government, entail no risk and will enable local farmers to build up their places and put them in a position to become more prosperous citizens."

How Does the Insured M

The authority for the insured farm mortgage program

Authority

is contained in the Farmers Home Administration Act of 1946 (Public Law 731) and Public Law 720 which amend the Bankhead-Jones Farm Tenant Act. A revolving insurance fund has been established from which claims in fulfilling the insurance provisions of the act are met. Not more than \$100,000,000 of mortgage principal obligations can be insured in any one fiscal year.

Insured mortgage holders may assign the mortgage to the Government and receive

Assured Market

full payment in cash after 7 years from the date the loan is closed. If the lender prefers to hold the mortgage the Government may offer him a new agreement to purchase the mortgage after the expiration of another fixed period.

Or the lender may decide to retain possession of the mortgage until it is refinanced or paid in full by the borrower. Refinancing is required by the Farmers Home Administration Act when the borrower is able to obtain a noninsured loan on satisfactory terms at not more than 5 percent interest.

Insured farm mortgages are sound investments since both principal and interest are

Security

fully guaranteed by the Government.

Each insured mortgage loan is based upon a normal earning capacity appraisal of the farm made by a Federal appraiser, and must be certified by the Farmers Home Administration County Committee (made up of three local persons, at least two of them farmers). The Committee also considers the qualifications of applicants and certifies as to their eligibility. Insured loans can be made for not more than 90 percent of the applicant's total investment in the land and improvements.

To protect the Government's interests, the Farmers Home Administration helps each borrower to develop sound methods of operation. Insofar as possible, supervision is provided to assure likelihood of success and the repayment of the loan.

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The interest return to the lender is 3 percent on the unpaid principal. The borrower pays annually an additional 1 percent mortgage insurance charge to the Farmers

Stability of Return

Home Administration, half of which goes for administration and half for the insurance premium.

Principal and interest payments become due annually, but advance payments may be made at the convenience of the borrower. Borrowers may repay their loans on a variable-payment plan, which permits them to make payments ahead of schedule in good years to keep their loans in good standing during years of low income due to poor crops or low prices for agricultural commodities.

Payments to lenders will be prompt. If a borrower is in default, the Farmers Home Administration will immediately pay the lender all principal and interest due and unpaid. If a borrower is in default for more than 12 months, the Farmers Home Administration may, if the holder of the mortgage desires, take over the insured mortgage and pay the lender in cash the full amount of unpaid principal and interest, plus any authorized payments which have been made by the lender for taxes, etc.

The mortgages are easily transferable. Notice of the transfer of title to an

Marketability and Collateral

insured mortgage should be made promptly to the Farmers Home Administration which will immediately acknowledge the transfer. Insured mortgages may be assigned for collateral purposes without notifying the Farmers Home Administration. From the lender's standpoint, the program is simple in operation and there

Management

will be little expense connected with handling the mortgages. The law provides that the Farmers Home Admin-

istration shall collect the annual loan charges from the borrower and transmit the portion representing principal and interest to the lender. The lender is promptly notified of any default.

All other loan making and servicing operations are also carried on by the Farmers Home Administration. This includes the approval of applicants, the appraisal of farms, and necessary supervision of borrowers in aiding them to build a sound and profitable farming operation. Any work or expense involved in handling delinquencies or foreclosures, if they should occur, is also the responsibility of the Farmers Home Administration.

The following steps are taken in making a Farm

Ownership loan:

Lending Procedure

Application.—Persons who wish to make application for loans should be referred to the

Farmers Home Administration office serving the county where they intend to locate. These offices are usually at the county seat, and may serve more than one county.

Appraisal.—A qualified Federal appraiser will appraise the farm to be purchased, enlarged, or improved, to determine the normal earning capacity, value and other factors pertinent to making a sound loan.

Certification.—The County Committee certifies to the fair and reasonable value of the farm, based on its normal earning capacity, and certifies as to the applicant's reasonable likelihood of success based upon his managerial ability, industry, character and experience.

Insuring the mortgage.—Mortgage insurance will be effective as of the date the loan is closed.

Of Interest to Lenders

The insured farm mortgage program affords an opportunity to work with farm families who cannot qualify for regular real estate credit at present, but who are likely to become good customers of local lenders for all of their credit needs in the future. Since borrowers make their own choice of a lender or an insured mortgage loan, many of the families undoubtedly will want to continue their relationship with the original lender when they become eligible for regular credit.

The Farmers Home Administration will help any interested insured mortgage lender to keep in touch with the needs, plans, and progress of his borrowers in this program. While it is not necessary to the security or handling of an insured mortgage, such interest is likely to indicate to the borrower a friendly and understanding source of future credit, including refinancing of his loan.

Many borrowers will need chattel and operating loans while they have insured mortgage loans. When they can arrange with the maker of the insured mortgage loan or other lender for such chattel and operating credit under terms prevailing in the community and consistent with approved plans for the successful operation of the farm, they will be encouraged to make such arrangements.

If you want more information see the Farmers Home Administration supervisor for your county or write to the State director of the Farmers Home Administration for your State, at the address on the following page.

Farmers Home Administration State Offices

ALABAMA, Farm Security Building, Montgomery 4.
ALASKA, Building 1, Swan Island, Portland 18, Ore.
ARIZONA, 809 West Tijeras Avenue, Albuquerque, N. Mex.
ARKANSAS, Waldon Building, Little Rock.
CALIFORNIA, 30 Van Ness Avenue, San Francisco 2.
COLORADO, 950 Broadway, Denver 3.
CONNECTICUT, 2003 Federal Building, Boston 9, Mass.
DELAWARE, Federal Land Bank Building, Baltimore 18, Md.
FLORIDA, Professional Building, Gainesville.
GEORGIA, Room 604, Atlanta National Building, Atlanta.
HAWAII, 30 Van Ness Avenue, San Francisco 2, Calif.
IDAHO, 110 Motor Avenue, Salt Lake City, Utah.
ILLINOIS, 14 Federal Building, Champaign.
INDIANA, 212 Federal Building, Lafayette.
IOWA, 307 Old Federal Building, Des Moines 9.
KANSAS, Room 439, New England Building, Topeka.
KENTUCKY, 231 W. Maxwell Street, Lexington 29.
LOUISIANA, P. O. Box 587, Alexandria.
MAINE, 31 Central Street, Bangor.
MARYLAND, Federal Land Bank Building, Baltimore 18.
MASSACHUSETTS, 2003 Federal Building, Boston 9.
MICHIGAN, 304 Evergreen Avenue, East Lansing.
MINNESOTA, 113 Federal Courts Building, St. Paul 2.
MISSISSIPPI, Masonic Temple Building, Jackson.
MISSOURI, 811 Cherry Street, Columbia.
MONTANA, Box 754, Bozeman.
NEBRASKA, 134 South Twelfth Street, Lincoln 8.
NEVADA, 30 Van Ness Avenue, San Francisco 2, Calif.
NEW HAMPSHIRE, 2003 Federal Building, Boston 9, Mass.
NEW JERSEY, 205 Post Office Building, Trenton.
NEW MEXICO, 809 West Tijeras Avenue, Albuquerque.
NEW YORK, 701 First National Bank Building, Ithaca.
NORTH CAROLINA, State Capital Life Insurance Building, Raleigh.
NORTH DAKOTA, Federal Building, Bismarck.
OHIO, Room 317, Old Post Office Building, Columbus 15.
OKLAHOMA, Room 404, Federal Building, Oklahoma City.
OREGON, Building 1, Swan Island, Portland 18.
PENNSYLVANIA, 118 Locust, Harrisburg.
PUERTO RICO, P. O. Box 4269, San Juan 21.
RHODE ISLAND, 2003 Federal Building, Boston 9, Mass.
SOUTH CAROLINA, Federal Land Bank Building, Columbia 1.
SOUTH DAKOTA, 225 East Eleventh Street, Sioux Falls.
TENNESSEE, 104 Twenty-first Avenue South, Nashville.
TEXAS, 405 United States Terminal Annex, Dallas 2.
UTAH, 110 Motor Avenue, Salt Lake City.
VERMONT, 2003 Federal Building, Boston 9, Mass.
VIRGINIA, 900 North Lombardy Street, Richmond.
WASHINGTON, Building 1, Swan Island, Portland 18, Ore.
WEST VIRGINIA, 231 Chestnut Street, Morgantown.
WISCONSIN, 2028 Atwood Avenue, Madison 4.
WYOMING, P. O. Box 820, Casper.